

CITY OF HESSTON, KANSAS

HESSTON, KANSAS

DECEMBER 31, 2010

CITY OF HESSTON, KANSAS

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December 31, 2010

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of Hesston, Kansas

We have audited the accompanying financial statements of the City of Hesston, Kansas as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States, and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the City of Hesston, Kansas prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the state of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States are described in note 1. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of the City of Hesston, Kansas as of December 31, 2010, or changes in financial position for the year then ended.

However, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of the City of Hesston, Kansas as of December 31, 2010, and its cash receipts, expenditures, and budgetary results for the year then ended, on the basis of accounting described in note 1.



Certified Public Accountants

Hutchinson, Kansas
June 6, 2011

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CITY OF HESSTON, KANSAS

**SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH -
REGULATORY BASIS**
For Year Ended December 31, 2010

Statement 1
Page 1 of 2

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
GOVERNMENTAL TYPE FUNDS						
General	\$ 966,702	\$ 1,666,014	\$ 1,655,719	\$ 976,997	\$ 11,144	\$ 988,141
Special revenue						
Library	6,888	300,817	300,735	6,970	-	6,970
Library maintenance	-	125,692	85,179	40,513	-	40,513
Special highway	499,624	131,674	133,676	497,622	-	497,622
Emergency services	130,402	272,155	293,592	108,965	1,653	110,618
Fire equipment	101,281	83,490	14,316	170,455	-	170,455
Community service program	28,851	17,727	16,981	29,597	-	29,597
Special law enforcement	112	1,612	1,724	-	-	-
Capital improvement	125,020	-	6,394	118,626	-	118,626
Equipment reserve	457,787	177,096	117,785	517,098	-	517,098
Economic development	85,577	27,770	25,883	87,464	-	87,464
Special parks	3,442	-	2,261	1,181	-	1,181
Revolving loan	22,320	38,848	-	61,168	-	61,168
Debt service						
Bond and interest	209,279	764,682	764,827	209,134	-	209,134
Capital projects	177,569	855,000	1,033,989	(1,420)	-	(1,420)
Public Building Commission	-	60,000	-	60,000	-	60,000
PROPRIETARY TYPE FUNDS						
Enterprise						
Utilities	2,164,273	3,790,995	3,399,055	2,556,213	5,067	2,561,280
Utility deposits	-	-	-	-	52,324	52,324
Water tower project	26,280	215,002	121,296	119,986	-	119,986
Utility maintenance reserve	1,058,894	104,000	51,102	1,111,792	-	1,111,792
Golf course	92,762	186,251	268,944	10,069	-	10,069
Golf course maintenance reserve	126,698	35,000	45,964	115,734	-	115,734
TOTAL PRIMARY GOVERNMENT	6,283,761	8,853,825	8,339,422	6,798,164	70,188	6,868,352
COMPONENT UNIT						
Hesston Public Library	42,439	278,277	271,705	49,011	-	49,011
TOTAL REPORTING ENTITY (excluding agency funds)	\$ 6,326,200	\$ 9,132,102	\$ 8,611,127	\$ 6,847,175	\$ 70,188	\$ 6,917,363

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH -
 REGULATORY BASIS
 For Year Ended December 31, 2010

Statement 1
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COMPOSITION OF CASH

Checking accounts	
Citizen State Bank, Hesston, Kansas	\$ 4,495,448
Petty cash	260
Certificates of deposit	
Citizen State Bank, Hesston, Kansas	2,000,000
Component unit	
Hesston Public Library	<u>49,011</u>
 TOTAL COMPOSITION OF CASH	 6,544,719
 Utility accounts receivable	 <u>372,644</u>
 TOTAL REPORTING ENTITY	 <u><u>\$ 6,917,363</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

SUMMARY OF EXPENDITURES - REGULATORY BASIS (ACTUAL AND BUDGET)
(BUDGETED FUNDS ONLY)

For Year Ended December 31, 2010

Statement 2

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
GOVERNMENT TYPE FUNDS					
General	\$ 2,602,396	\$ -	\$ 2,602,396	\$ 1,655,719	\$ (946,677)
Special revenue					
Library	176,663	133,811	310,474	300,735	(9,739)
Special highway	470,453	-	470,453	133,676	(336,777)
Emergency services	415,091	-	415,091	293,592	(121,499)
Fire equipment	286,273	-	286,273	14,316	(271,957)
Community service program	45,844	-	45,844	16,981	(28,863)
Economic development	110,548	-	110,548	25,883	(84,665)
Special parks	6,874	-	6,874	2,261	(4,613)
Revolving loan	96,542	-	96,542	-	(96,542)
Debt service					
Bond and interest	971,705	-	971,705	764,827	(206,878)
PROPRIETARY TYPE FUNDS					
Utilities	6,562,572	-	6,562,572	3,399,055	(3,163,517)
Golf course	618,311	-	618,311	268,944	(349,367)
Water tower project	180,000	-	180,000	121,296	(58,704)

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

GENERAL FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
Page 1 of 17

	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Taxes			
Ad valorem property tax	\$ 439,021	\$ 448,895	\$ (9,874)
16/20m vehicle tax	1,078	1,197	(119)
Back tax collections	6,181	5,000	1,181
Recreation vehicle tax	909	973	(64)
Motor vehicle tax	63,428	66,637	(3,209)
Sales tax	617,515	625,000	(7,485)
Alcohol tax	-	1,100	(1,100)
Total taxes	<u>1,128,132</u>	<u>1,148,802</u>	<u>(20,670)</u>
Licenses, fees, and permits			
Utility franchise tax	269,128	230,000	39,128
Miscellaneous permits and licenses	<u>30,919</u>	<u>25,850</u>	<u>5,069</u>
Total licenses, fees, and permits	<u>300,047</u>	<u>255,850</u>	<u>44,197</u>
Other receipts			
Fines, forfeitures, and penalties	36,517	44,000	(7,483)
Interest on idle funds	15,722	50,000	(34,278)
Reimbursed expenses	46,366	30,000	16,366
Miscellaneous	17,610	13,800	3,810
Operating transfers in	100,000	100,000	-
Lease revenues	<u>21,620</u>	<u>30,000</u>	<u>(8,380)</u>
Total other receipts	<u>237,835</u>	<u>267,800</u>	<u>(29,965)</u>
TOTAL CASH RECEIPTS	<u>1,666,014</u>	<u>\$ 1,672,452</u>	<u>\$ (6,438)</u>
EXPENDITURES			
General government			
General administration	112,094	\$ 128,779	\$ (16,685)
Legal service and engineering	12,942	13,000	(58)
Audit	<u>13,750</u>	<u>13,500</u>	<u>250</u>
Total general government	<u>138,786</u>	<u>155,279</u>	<u>(16,493)</u>
Public safety			
Police	550,281	638,661	(88,380)
Fire	106,754	113,590	(6,836)
Municipal court	<u>35,820</u>	<u>32,500</u>	<u>3,320</u>
Total public safety	<u>692,855</u>	<u>784,751</u>	<u>(91,896)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

GENERAL FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
EXPENDITURES (CONTINUED)			
Highways and streets			
Streets	\$ 274,493	\$ 304,001	\$ (29,508)
Street lighting	40,079	40,000	79
Total highways and streets	<u>314,572</u>	<u>344,001</u>	<u>(29,429)</u>
Culture and recreation			
Park	161,633	178,414	(16,781)
Cemetery	39	500	(461)
Tree board	2,291	5,000	(2,709)
Employee functions	1,398	5,000	(3,602)
Total culture and recreation	<u>165,361</u>	<u>188,914</u>	<u>(23,553)</u>
Economic development			
Community development	-	10,000	(10,000)
Chamber of Commerce	26,677	20,500	6,177
Industrial development	15,455	16,325	(870)
Lease/purchase restaurant building	91,817	109,185	(17,368)
Total economic development	<u>133,949</u>	<u>156,010</u>	<u>(22,061)</u>
Capital improvements	<u>60,196</u>	<u>923,441</u>	<u>(863,245)</u>
Transfers out	<u>150,000</u>	<u>50,000</u>	<u>100,000</u>
TOTAL EXPENDITURES	<u>1,655,719</u>	<u>\$ 2,602,396</u>	<u>\$ (946,677)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	10,295		
UNENCUMBERED CASH, BEGINNING	<u>966,702</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 976,997</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

LIBRARY FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Ad valorem property tax	\$ 143,334	\$ 146,563	\$ (3,229)
16/20m vehicle tax	407	391	16
Back tax collections	2,127	1,400	727
Recreation vehicle tax	298	318	(20)
Motor vehicle tax	20,840	21,755	(915)
Reimbursed expenses	133,811	-	133,811
TOTAL CASH RECEIPTS	<u>300,817</u>	<u>\$ 170,427</u>	<u>\$ 130,390</u>
EXPENDITURES			
Appropriations to library board	167,004	\$ 170,428	\$ (3,424)
Appropriations of fund reserve	-	6,235	(6,235)
Payroll and insurance	133,731	-	133,731
	300,735	176,663	124,072
Adjustment for qualifying budget credit	-	133,811	(133,811)
TOTAL EXPENDITURES	<u>300,735</u>	<u>\$ 310,474</u>	<u>\$ (9,739)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	82		
UNENCUMBERED CASH, BEGINNING	<u>6,888</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 6,970</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

SPECIAL HIGHWAY FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
State payments	\$ 101,674	\$ 107,310	\$ (5,636)
Grant	30,000	-	30,000
TOTAL CASH RECEIPTS	<u>131,674</u>	<u>\$ 107,310</u>	<u>\$ 24,364</u>
EXPENDITURES			
Paving and materials	41,068	\$ 40,000	\$ 1,068
Street improvements	56,609	15,000	41,609
Sidewalk improvements	35,999	415,453	(379,454)
TOTAL EXPENDITURES	<u>133,676</u>	<u>\$ 470,453</u>	<u>\$ (336,777)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(2,002)		
UNENCUMBERED CASH, BEGINNING	<u>499,624</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 497,622</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS
 EMERGENCY SERVICES FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Intergovernmental	\$ 100,216	\$ 100,000	\$ 216
Charges for services	170,558	150,000	20,558
Operating transfers in	-	25,000	(25,000)
Reimbursed expenses	1,381	-	1,381
TOTAL CASH RECEIPTS	<u>272,155</u>	<u>\$ 275,000</u>	<u>\$ (2,845)</u>
EXPENDITURES			
Personal services	187,382	\$ 221,778	\$ (34,396)
Contractual services	24,059	31,500	(7,441)
Commodities	26,461	27,450	(989)
Capital outlay	4,270	134,363	(130,093)
Operating transfers out	50,000	-	50,000
Miscellaneous	1,420	-	1,420
TOTAL EXPENDITURES	<u>293,592</u>	<u>\$ 415,091</u>	<u>\$ (121,499)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(21,437)		
UNENCUMBERED CASH, BEGINNING	<u>130,402</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 108,965</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

FIRE EQUIPMENT FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Ad valorem property tax	\$ 34,139	\$ 34,896	\$ (757)
16/20m vehicle tax	97	93	4
Back tax collections	512	300	212
Recreational vehicle tax	71	76	(5)
Motor vehicle tax	4,962	5,181	(219)
Service agreements	43,709	43,700	9
TOTAL CASH RECEIPTS	83,490	<u>\$ 84,246</u>	<u>\$ (756)</u>
EXPENDITURES			
Capital outlay	<u>14,316</u>	<u>\$ 286,273</u>	<u>\$ (271,957)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	69,174		
UNENCUMBERED CASH, BEGINNING	<u>101,281</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 170,455</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

COMMUNITY SERVICE PROGRAM FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Ad valorem property tax	\$ 15,213	\$ 15,550	\$ (337)
16/20m vehicle tax	43	41	2
Back tax collections	228	150	78
Recreational vehicle tax	32	34	(2)
Motor vehicle tax	2,211	2,307	(96)
TOTAL CASH RECEIPTS	17,727	\$ 18,082	\$ (355)
EXPENDITURES			
Contractual services	16,981	\$ 45,844	\$ (28,863)
RECEIPTS OVER (UNDER) EXPENDITURES	746		
UNENCUMBERED CASH, BEGINNING	28,851		
UNENCUMBERED CASH, ENDING	\$ 29,597		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS
 ECONOMIC DEVELOPMENT FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
Page 8 of 17

	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Transient guest tax	\$ 27,770	\$ 25,000	\$ 2,770
EXPENDITURES			
Contractual services	22,405	\$ 33,775	\$ (11,370)
Commodities	3,478	5,000	(1,522)
Capital outlay	-	71,773	(71,773)
TOTAL EXPENDITURES	25,883	\$ 110,548	\$ (84,665)
RECEIPTS OVER (UNDER) EXPENDITURES	1,887		
UNENCUMBERED CASH, BEGINNING	85,577		
UNENCUMBERED CASH, ENDING	\$ 87,464		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

SPECIAL PARKS FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Alcohol tax	\$ -	\$ <u>1,175</u>	\$ <u>(1,175)</u>
EXPENDITURES			
Capital outlay	<u>2,261</u>	\$ <u>6,874</u>	\$ <u>(4,613)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(2,261)		
UNENCUMBERED CASH, BEGINNING	<u>3,442</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 1,181</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

REVOLVING LOAN FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Loan repayments	\$ 38,848	<u>\$ 52,500</u>	<u>\$ (13,652)</u>
EXPENDITURES			
Loan disbursements	<u>-</u>	<u>\$ 96,542</u>	<u>\$ (96,542)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	38,848		
UNENCUMBERED CASH, BEGINNING	<u>22,320</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 61,168</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

BOND AND INTEREST FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS

(ACTUAL AND BUDGET)

For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Ad valorem property tax	\$ 168,608	\$ 213,955	\$ (45,347)
16/20m vehicle tax	479	459	20
Back tax collections	2,531	1,800	731
Recreational vehicle tax	350	374	(24)
Motor vehicle tax	24,514	25,591	(1,077)
Special assessments	346,200	345,126	1,074
Operating transfers in	222,000	212,000	10,000
TOTAL CASH RECEIPTS	<u>764,682</u>	<u>\$ 799,305</u>	<u>\$ (34,623)</u>
EXPENDITURES			
Bond principal	595,000	\$ 595,000	\$ -
Interest coupons	169,808	169,803	5
Cash basis reserve	-	206,902	(206,902)
Miscellaneous	19	-	19
TOTAL EXPENDITURES	<u>764,827</u>	<u>\$ 971,705</u>	<u>\$ (206,878)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(145)		
UNENCUMBERED CASH, BEGINNING	<u>209,279</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 209,134</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

UTILITIES FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Charges for service	\$ 3,771,189	\$ 4,685,000	\$ (913,811)
Connection fees	5,138	-	5,138
Miscellaneous	14,668	-	14,668
TOTAL CASH RECEIPTS	<u>3,790,995</u>	<u>\$ 4,685,000</u>	<u>\$ (894,005)</u>
EXPENDITURES			
Personal services	651,000	\$ 707,115	\$ (56,115)
Contractual services	376,623	428,500	(51,877)
Commodities	1,721,308	2,841,400	(1,120,092)
Capital outlay	74,622	1,953,557	(1,878,935)
Miscellaneous	3,502	-	3,502
Operational fund transfers	572,000	632,000	(60,000)
TOTAL EXPENDITURES	<u>3,399,055</u>	<u>\$ 6,562,572</u>	<u>\$ (3,163,517)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	391,940		
UNENCUMBERED CASH, BEGINNING	<u>2,164,273</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 2,556,213</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

GOLF COURSE FUND
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 (ACTUAL AND BUDGET)
 For Year Ended December 31, 2010

Statement 3
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	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Charges for service	\$ 171,823	\$ 448,000	\$ (276,177)
Miscellaneous	14,428	22,500	(8,072)
Transfer for utilities	-	35,000	(35,000)
TOTAL CASH RECEIPTS	<u>186,251</u>	<u>\$ 505,500</u>	<u>\$ (319,249)</u>
EXPENDITURES			
Personal services	78,105	\$ 204,908	\$ (126,803)
Contractual services	169,322	247,638	(78,316)
Commodities	21,497	76,500	(55,003)
Capital outlay	-	89,265	(89,265)
Reimbursed expenses	20	-	20
TOTAL EXPENDITURES	<u>268,944</u>	<u>\$ 618,311</u>	<u>\$ (349,367)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(82,693)		
UNENCUMBERED CASH, BEGINNING	<u>92,762</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 10,069</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS
WATER TOWER PROJECT FUND
STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
(ACTUAL AND BUDGET)
For Year Ended December 31, 2010

Statement 3
Page 14 of 17

	2010		Variance Over (Under)
	Actual	Budget	
CASH RECEIPTS			
Loan advances	\$ 100,002	\$ -	\$ 100,002
Transfer from utilities	115,000	115,000	-
TOTAL CASH RECEIPTS	<u>215,002</u>	<u>\$ 115,000</u>	<u>\$ 100,002</u>
EXPENDITURES			
Construction	477	\$ -	\$ 477
Loan payment	120,819	180,000	(59,181)
TOTAL EXPENDITURES	<u>121,296</u>	<u>\$ 180,000</u>	<u>\$ (58,704)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	93,706		
UNENCUMBERED CASH, BEGINNING	<u>26,280</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 119,986</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS
 ENTERPRISE NONBUDGETED FUNDS
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 For Year Ended December 31, 2010

Statement 3
 Page 15 of 17

	Utility Reserve	Golf Course Maintenance Reserve
CASH RECEIPTS		
Operational transfers in	\$ 100,000	\$ 35,000
Miscellaneous	4,000	-
	<u>104,000</u>	<u>35,000</u>
TOTAL CASH RECEIPTS		
EXPENDITURES		
Equipment	51,102	45,964
Improvements	-	-
	<u>51,102</u>	<u>45,964</u>
TOTAL EXPENDITURES		
RECEIPTS OVER (UNDER) EXPENDITURES	52,898	(10,964)
UNENCUMBERED CASH, BEGINNING	<u>1,058,894</u>	<u>126,698</u>
UNENCUMBERED CASH, ENDING	<u>\$ 1,111,792</u>	<u>\$ 115,734</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

SPECIAL REVENUE NONBUDGETED FUNDS
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 For Year Ended December 31, 2010

Statement 3
 Page 16 of 17

	Special Law Enforcement	Public Building Commission	Library Maintenance Fund	Capital Improvement	Equipment Reserve
CASH RECEIPTS					
Miscellaneous	\$ 1,612	\$ -	\$ 75,692	\$ -	\$ 27,096
Lease payments	-	60,000	-	-	-
Operating transfers in	-	-	50,000	-	150,000
TOTAL CASH RECEIPTS	<u>1,612</u>	<u>60,000</u>	<u>125,692</u>	<u>-</u>	<u>177,096</u>
EXPENDITURES					
Capital outlay	<u>1,724</u>	<u>-</u>	<u>85,179</u>	<u>6,394</u>	<u>117,785</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(112)	60,000	40,513	(6,394)	59,311
UNENCUMBERED CASH, BEGINNING	<u>112</u>	<u>-</u>	<u>-</u>	<u>125,020</u>	<u>457,787</u>
UNENCUMBERED CASH, ENDING	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 40,513</u>	<u>\$ 118,626</u>	<u>\$ 517,098</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

CAPITAL PROJECTS NONBUDGETED FUNDS
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 For Year Ended December 31, 2010

Statement 3
 Page 17 of 17

	<u>Windover II</u>	<u>Library Building</u>	<u>Total</u>
CASH RECEIPTS			
Bond proceeds	\$ -	\$ 855,000	\$ 855,000
Accrued interest bond proceeds	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CASH RECEIPTS	<u>-</u>	<u>855,000</u>	<u>855,000</u>
EXPENDITURES			
Construction	-	626,908	626,908
Debt retirement	-	375,172	375,172
Legal	-	31,909	31,909
	<u>-</u>	<u>31,909</u>	<u>31,909</u>
TOTAL EXPENDITURES	<u>-</u>	<u>1,033,989</u>	<u>1,033,989</u>
RECEIPTS OVER (UNDER) EXPENDITURES	-	(178,989)	(178,989)
UNENCUMBERED CASH, BEGINNING	<u>(1,420)</u>	<u>178,989</u>	<u>177,569</u>
UNENCUMBERED CASH, ENDING	<u>\$ (1,420)</u>	<u>\$ -</u>	<u>\$ (1,420)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS

HESSTON PUBLIC LIBRARY - COMPONENT UNIT
 STATEMENT OF CASH RECEIPTS AND EXPENDITURES - REGULATORY BASIS
 For Year Ended December 31, 2010

Statement 4

	<u>Actual</u>
CASH RECEIPTS	
City appropriations	\$ 167,004
Fines and donations	85,861
Grants	15,197
Miscellaneous	9,593
Interest	<u>622</u>
TOTAL CASH RECEIPTS	<u>278,277</u>
EXPENDITURES	
Equipment and furniture	90,290
Maintenance	420
Insurance	4,439
Collection	21,360
Program	1,572
Fund raising	6,593
Payroll	129,763
Operations	2,696
Supplies and materials	6,740
Utilities	7,293
Miscellaneous	<u>539</u>
TOTAL EXPENDITURES	<u>271,705</u>
RECEIPTS OVER (UNDER) EXPENDITURES	6,572
UNENCUMBERED CASH, BEGINNING	<u>42,439</u>
UNENCUMBERED CASH, ENDING	<u><u>\$ 49,011</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HESSTON, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Hesston, Kansas (the City), is a municipal corporation governed by an elected mayor and five-member council. These financial statements present the City of Hesston (the primary government) and its component units. Component units are entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of their operational or financial relationships with the City. The blended component unit, although a legally separate entity is, in substance, part of the City's operations. Data from this component unit is combined with data from the City. The discretely presented component unit is reported in a separate line in the financial statements to emphasize that it is legally separate from the City.

Blended Component Unit

The mayor and city council sits in a separate legal capacity as the Public Building Commission. The Public Building Commission has authority to do all things that are necessary or incidental to construct, acquire, or enlarge; furnish and equip; and operate and maintain buildings for government use.

Discretely Presented Component Unit

The Hesston Public Library is governed by a board, all appointees of which are approved by the City mayor. The Library is not a separate taxing entity under Kansas statutes, and the City levies taxes for the Library operation, which represents a significant portion of its total revenues.

Basis of Presentation - Fund Accounting

The accounts of the City of Hesston, Kansas are organized on the basis of funds, each of which is considered a separate accounting entity. The City has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

The following types of funds comprise the financial activities of the City for the year of 2010:

Governmental funds

General fund – to account for all unrestricted resources except those required to be accounted for in another fund.

Special revenue funds – to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Capital project funds – to account for the financial resources segregated for the acquisition or construction of major capital facilities and improvements.

Debt service funds – to account for the accumulation of resources for and the payment of, interest and principal on general long-term debt.

Proprietary funds

Enterprise funds – to account for operations that are financed and operated in a manner similar to private business enterprises – where the stated intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges – or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the state of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances with disbursements being adjusted for prior year's accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures and encumbrances compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States. General fixed assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. The required balance sheet, income statement, and the statement of cash flows are not presented for proprietary fund types. Accounting principles generally accepted in the United States require these fund types to be accounted for by the full accrual method of accounting.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Interest Income

Unless otherwise designated, all investment income is credited to the general fund.

Compensated Absences

The City's policies regarding vacation and sick leave permit employees to accumulate a maximum of 20 days vacation and 120 days sick leave. Policies prohibit payment of vacation time in lieu of time off and all accumulated vacation pay is payable upon employment termination. Policy prohibits payment of unused sick pay upon termination by the City. However, certain long-time employees have been grandfathered into the City's policy, and once 120 sick days have been accrued, additional sick days accrued are put into a sick bank at a rate of one-fourth day per month. These grandfathered employees will be paid for sick leave earned in excess of 120 days upon termination.

Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Reimbursed Expenditures

The City's records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

Policy for Applying FASB Pronouncements to Proprietary Funds

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Budgets

Kansas statutes require that an annual operating budget be legally adopted for all funds (including debt service and enterprise funds) unless exempted by specific statute. The statutes provide for the following sequence and timetable in adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1 of each year.
2. Publication in local newspaper on or before August 5 of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for equipment and building reserve funds, special law enforcement fund, public building commission fund, and capital projects funds.

Spending in funds which are not subject to the legal annual operating budget requirement are maintained by the review and internal appropriation process established by management.

Taxes levied to finance the budget become a lien against all property November 1. Taxpayers have the option of paying in full or in two installments. The delinquency dates are December 20 and May 10. These taxes are made available to the City after January 1 and are distributed by the county treasurer generally in the months of January and June. Delinquent tax collections are distributed throughout the year.

NOTE 2—DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is used by all funds. Each fund's portion of this pool is displayed on the Summary of Cash Receipts, Expenditures, and Unencumbered Cash. The cash balances of certain funds are restricted as to their use.

K.S.A. 9-1401 established the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the state of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2010.

Deposits

At December 31, 2010, the carrying amount of the City's deposits, including certificates of deposit was \$6,495,448. The bank balance was \$6,512,806. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining \$6,262,806 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name.

At December 31, 2010, the carrying amount of the component unit deposits, including certificates of deposit, was \$49,011. The bank balance was \$66,046, which was covered by FDIC insurance. The bank balance was held by one bank resulting in a concentration of credit risk.

NOTE 3—LONG-TERM DEBT

Terms for long-term liabilities for the City of Hesston for the year ended December 31, 2010, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity
General obligation bonds				
Series 2002A	1.550% to 3.450%	11/01/02	\$ 2,080,000	12/01/11
Series 2002B	1.700% to 4.800%	11/01/02	338,716	12/01/23
Series 2004A	2.500% to 4.700%	07/01/04	658,000	09/01/25
Series 2006A	3.700% to 4.400%	09/01/06	1,278,000	09/01/26
Series 2007A	3.630% to 4.200%	05/17/07	1,754,000	09/01/27
Series 2009	3.000% to 4.850%	11/15/09	1,621,000	08/01/30
Public Building Commission Series 2010	1.500% to 4.750%	03/01/10	855,000	09/01/30
Capital leases				
Restaurant	3.660%	09/13/01	495,000	12/01/14
Automatic meter reader	6.348%	12/15/05	165,715	12/15/15
KDHE loan				
KPWSLF project #2495	3.580%	08/31/07	1,631,806	08/31/29

Principal payments are due annually for general obligation bonds on December 1 for the series 2002 bonds, and September 1 for series 2004 bonds, 2006 bonds, 2007 bonds, 2009 bonds, and the Public Building Commission series 2010 bonds. Interest payments are due semi-annually on June 1 and December 1 for the series 2002 bonds, and March 1 and September 1 for the series 2004 bonds, 2006 bonds, 2007 bonds, 2009 bonds, and the Public Building Commission series 2010 bonds. Principal and interest payments are due semi-annually on February 1 and August 1 for the KDHE loan.

Conduit Debt

The City has issued Industrial Revenue Bonds not directly obligated by the City. The total amount outstanding at December 31, 2010, was \$117,845,088, for the Industrial Revenue Bonds. These bonds do not constitute an indebtedness or pledge of the faith and credit of the responsible entities or the City.

Changes in long-term liabilities for the City of Hesston for the year ended December 31, 2010, were as follows:

Issue	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
General obligation bonds					
Series 2000	\$ 90,000	\$ -	\$ 90,000	\$ -	\$ 4,727
Series 2002A	655,000	-	320,000	335,000	22,118
Series 2002B	260,000	-	20,000	240,000	10,740
Series 2004A	495,000	-	50,000	445,000	19,810
Series 2006A	1,145,000	-	50,000	1,095,000	47,758
Series 2007A	1,655,000	-	65,000	1,590,000	64,650
Series 2009	1,621,000	-	-	1,621,000	-
Public Building Commission Series 2010	-	855,000	-	855,000	-
Capital leases					
Library building	367,186	-	367,186	-	7,986
Restaurant	270,049	-	50,136	219,913	9,048
Automatic meter reader	111,327	-	15,821	95,506	6,715
KDHE loan					
KPWSLF project #2495	1,489,987	99,526	66,957	1,522,556	53,863
Total bonded indebtedness	8,159,549	954,526	1,095,100	8,018,975	247,415
Compensated absences	69,196	911	-	70,107	-
	<u>\$ 8,228,745</u>	<u>\$ 955,437</u>	<u>\$ 1,095,100</u>	<u>\$ 8,089,082</u>	<u>\$ 247,415</u>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	Principal			Interest			Total Principal and Interest
	General Obligation Bonds	Capital Leases	Other Debt	General Obligation Bonds	Capital Leases	Other Debt	
2011	\$ 530,000	\$ 68,828	\$ 59,268	\$ 316,325	\$ 12,893	\$ 53,981	\$ 1,041,295
2012	271,000	71,831	61,408	283,032	9,889	51,842	749,002
2013	290,000	74,974	63,626	278,009	6,746	49,622	762,977
2014	295,000	78,265	65,925	272,986	3,455	47,325	762,956
2015	300,000	21,521	68,306	262,759	1,014	44,943	698,543
2016-2020	1,475,000	-	380,367	1,210,199	-	185,880	3,251,446
2021-2025	1,620,000	-	454,208	972,925	-	112,038	3,159,171
2026-2030	1,400,000	-	369,448	729,501	-	26,921	2,525,870
	<u>\$ 6,181,000</u>	<u>\$ 315,419</u>	<u>\$ 1,522,556</u>	<u>\$ 4,325,736</u>	<u>\$ 33,997</u>	<u>\$ 572,552</u>	<u>\$ 12,951,260</u>

Included in other debt above are principal and interest payments on the KDHE loan.

NOTE 4—REVOLVING LOANS

The City has a revolving loan fund to loan money to local businesses. Balances of note receivables at year end are as follows:

Date of Loan	Company	Original Loan Amount	Interest Rate	Original Terms in Years	Balance Due at 12/31/10
2009	Anytime Tone and Tan	\$ 85,000	3.00%	10 Years	\$ 77,149
2009	Panda Kitchen	25,000	3.00%	10 Years	22,430
2007	Everybody Shop	10,000	6.25%	5 Years	3,185
2006	Hesston Chiropractic	40,000	5.75%	10 Years	23,696
2004	Stone Creek Nursery	40,000	3.00%	10 Years	-
2004	Hesston Hospitality, L.L.C.	100,000	3.00%	10 Years	18,955
					<u>\$ 145,415</u>

NOTE 5—INTERFUND TRANSFERS

Operating transfers were as follows:

From	To	Statutory Authority	Amount
Utility fund	General fund	K.S.A. 12-825D	\$ 100,000
Utility fund	Bond and interest fund	K.S.A. 12-825D	222,000
Utility fund	Utility maintenance reserve fund	K.S.A. 12-825D	100,000
Utility fund	Golf fund	K.S.A. 12-825D	35,000
Utility fund	Water tower project fund	K.S.A. 12-1,117	115,000
General fund	Equipment reserve fund	K.S.A. 12-1,117	100,000
General fund	Library maintenace fund	K.S.A. 12-1,118	50,000
Emergency services fund	Equipment reserve fund	K.S.A. 12-1,117	50,000
			<u>\$ 772,000</u>

NOTE 6—DEFERRED COMPENSATION PLAN

The City offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. City contributions to the plan for 2010 were \$24,515.

NOTE 7—RISK MANAGEMENT

The City is subject to certain risks such as torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from third parties. There have been no significant reductions in insurance coverage from the prior year and there have been no settled claims in excess of insurance coverage for the prior three years.

NOTE 8—CONCENTRATIONS

Two customers account for approximately 48% of the City's utility fund revenue.

NOTE 9—DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Hesston participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law established and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009, KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4.00% of covered salary for Tier 1 members and at 6.00% of covered salary for Tier 2 members.

The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for 2010 was 7.14%; except for the period from March 14, 2010 through June 19, 2010, when the rate was 6.14%.

The City of Hesston employer contributions to KPERS for the years ended December 31, 2010, 2009, and 2008, were \$91,048, \$95,968, and \$73,494, respectively, equal to the statutory required contributions for each year.

NOTE 10—RELATED PARTY TRANSACTIONS

Transactions and balances with a local bank of which a council member is an officer as of and for the year ended December 31, 2010, are as follows:

Bank deposits at December 31, 2010	\$	6,512,806
Financing - capital lease balances at December 31, 2010		315,419
Interest received		15,722
Interest paid		23,749